

BOARD OF WATER COMMISSIONERS  
CITY AND COUNTY OF DENVER, COLORADO

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2001 AND 2000

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Water Commissioners (the "Board") was created under the Charter of the City and County of Denver, Colorado (the "City") as an independent, nonpolitical board. The Board has complete charge and control of a water works system and plant, which supplies water to customers located within the City and to entities serving other customers located in certain outlying areas in the Denver metropolitan area.

The Board has a five-member governing body, which is appointed by the Mayor of the City for overlapping six-year terms. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, "*The Financial Reporting Entity*," the Board would be classified as 1) an "other stand-alone government" since the Board is a legally separate and distinct entity from the City under the Charter of the City, and the City is not financially accountable for the Board, and 2) a "related organization" since the Mayor of the City appoints the Board's governing body, but is not financially accountable. However, the City has elected to include the Board's financial statements in the City's general purpose financial statements as a component unit enterprise fund because, in the City's opinion, the nature and significance of the Board's relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

As required by accounting principles generally accepted in the United States, the Board's financial statements present the Board and its component units. The Board's interest in the component unit discussed below is blended with the Board's reporting entity because of the significance of its operational or financial relationship with the Board.

The Denver Capital Leasing Corporation ("DCLC") was organized by the City as a nonprofit corporation in accordance with state law to facilitate financing of certain capital projects for the City and the Board. DCLC is governed by a three-member board appointed by the Mayor, and is reported as a component unit of the City. It is similar to an "undivided interest," an ownership arrangement in which two or more parties own property in which title is held individually to the extent of each party's interest, each party is liable for specific, identifiable obligations, and borrowing is done individually. Each party reports its own assets, liabilities, revenues, and expenses.

DCLC entered into a Master Lease Purchase Agreement ("MLPA") with the Board pursuant to which the Board leases from DCLC certain facilities. The Board constructed the facilities with proceeds from the execution and delivery of Certificates of Participation ("Certificates"), evidencing assignments of proportionate interests in rights to receive certain revenue of the Board under its MLPA with DCLC. The Certificates are payable solely from the Board's lease payments under the MLPA. DCLC has no obligation to make any payment on the Certificates. As the Board effectively has assumed substantially all of the risks and rewards of ownership, the Board accounts for the leased assets and related lease obligations as its own assets and its own debt (see Note 4).

The Employees' Retirement Plan of the Denver Board of Water Commissioners, (the "Plan"), the Board's trustee single-employer defined benefit pension plan, is part of the Board's entity but has been excluded for financial reporting purposes because of the following provision of the Plan (see Note 8):

The Plan and the Retirement Trust Fund created by the Plan were established and shall be maintained for the exclusive benefit of the eligible employees of the Board and their beneficiaries. No part of the Retirement Trust Fund can ever revert to the Board or be used for or diverted to purposes other than the exclusive benefit of the employees of the Board and their beneficiaries or the payment of expenses of the Plan.

Separate audited financial statements are available for the Plan.

#### Basis of Accounting

The Board's financial statements are accounted for on the flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the balance sheet, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates may affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Accounting Standards

The Board applies all applicable pronouncements of the GASB as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board ("FASB"), Opinions of the Accounting Principles Board, and Accounting Research Bulletins of the Committee on Accounting Procedure of the American Institute of Certified Public Accountants. In accordance with GASB Statement No. 20, the Board has elected not to apply FASB pronouncements issued after November 30, 1989.

#### Statements of Cash Flows

The definition of cash for purposes of the statements of cash flows is cash on hand and equity in treasurer's cash which represents cash on deposit with the City Treasurer in the Water Works Fund. Treasurer's cash is available for immediate withdrawal upon request by the Board.

#### Investments

In 2000, the Board's investments consisted entirely of money market investments (commercial paper, banker's acceptances, and U.S. Treasury and agency obligations). Those that had a remaining maturity at time of purchase of one year or less were valued at amortized cost. Those that had a remaining maturity at time of purchase of greater than one year were also valued at amortized cost due to the immateriality of the difference with fair value. In 2001, corporate bonds were added to the investment portfolio, and the method of valuation for all investments was changed from amortized cost to fair value. The cumulative effect of the change on prior periods is immaterial (see Note 3).

### Materials and Supplies Inventory

Materials and supplies inventory is valued at weighted average cost, which approximates market.

### Property, Plant and Equipment

Purchased and constructed property, plant and equipment ("PP&E") are recorded at cost. Donated PP&E are recorded at their estimated fair market value on the date received.

In 2001, as part of the Board's evaluation of long-lived assets, management evaluated the lives of certain water meters recorded by the Board. Based upon this evaluation, the Board concluded that a 30-year life for the meters is a more accurate estimate of the useful life of the meters as opposed to the original 80-year life. The new useful life of 30 years is effective on a prospective basis beginning in 2001. The effect of this change is to increase annual depreciation expense by \$751,000.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective depreciable or amortizable asset classes as follows:

Buildings and improvements	10 - 80 years
Motor vehicles and motorized equipment	7 - 50 years
Furniture, machinery and equipment	5 - 20 years

Depreciation and amortization for the years ended December 31, 2001 and 2000 were as follows (amounts expressed in thousands):

	<u>Years Ended December 31,</u>	
	<u>2001</u>	<u>2000</u>
Operating expenses, water service	\$ 24,247	\$ 23,912
Nonoperating expenses	112	109
Other, as allocated	<u>1,964</u>	<u>1,842</u>
Total depreciation and amortization	26,323	25,863
Less amortization of plant-related studies included in deferred charges (before write-off, see below)	<u>(16)</u>	<u>(1,393)</u>
Total depreciation and amortization of property, plant and equipment	<u>\$ 26,307</u>	<u>\$ 24,470</u>

Contributions in aid of construction ("CAC") represent facilities, or cash payments for facilities, received from property owners, governmental agencies and customers who receive benefit from such facilities. System development charges ("SDC") represent fees charged to customers to connect to the water system. Assets acquired through CAC and SDC are included in property, plant and equipment. Depreciation applicable to such assets is computed using the straight-line method over 80 and 60 years for CAC and SDC assets, respectively, and is charged to operations and then closed to the related equity accounts.

Maintenance and repairs are charged to expense as incurred, whereas major betterments are capitalized and depreciated or amortized. At the time of retirement or disposition of depreciable property, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in net income.

Costs of certain engineering, feasibility, environmental and other studies are capitalized until the related projects become operational. When projects become operational, the costs are transferred to property, plant and equipment and depreciated over the estimated useful life of the asset. In the event the projects do not become operational or the costs do not benefit future projects, all accumulated costs are expensed in the period such determination is made. If the projects become inactive but are not abandoned, the costs are carried as deferred charges and amortized over their estimated useful lives, or until the related projects become operational or abandoned. At December 31, 2001 and 2000, inactive development costs included in deferred charges which, in the Board's opinion, will be used in connection with future construction activities, totaled \$162,000 and \$178,000, respectively, net of amortization. During 2000, certain inactive development costs with a net book value at year-end of \$14.6 million were written off to Loss On Write-Off of Deferred Charges due to obsolescence of the underlying data.

Interest during the construction period is capitalized on major construction projects. Certain applicable general and administrative costs of an overhead nature are also capitalized, and such costs are depreciated over the estimated useful lives of the related assets when the related assets are transferred to PP&E.

#### Revenue

The Board accrues for estimated unbilled revenues for water provided through the end of each year since the last reading of the meters based on the billing cycle.

#### Rates

Under the City Charter, the Board is empowered to set rates for all of its customers. These rates "...may be sufficient to pay for operation, maintenance, reserves, debt service, additions, extensions, betterments, including those reasonably required for the anticipated growth of the Denver metropolitan area, and to provide for Denver's general welfare...."

On October 19, 1999, the Board approved a rate increase, effective March 6, 2000, which was estimated to increase normalized annual revenues by 2.5%.

On September 19, 2000, the Board approved a rate increase, effective January 1, 2001, which is estimated to increase normalized annual revenues by 2.4%.

On September 18, 2001, the Board approved a rate increase, effective January 1, 2002, which is estimated to increase normalized annual revenues by 2.5%.

#### Employee Compensated Absences

The Board's policy is to accrue for employee vacation, sick leave and other compensated absences when the employee vests in such benefits.

#### Waste Disposal Closure and Postclosure Care

The Board implemented GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," in 2000 (see Note 13).

#### Recently Issued Accounting Standards

*GASB Statement No. 33:* The Board implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" in 2001, which requires that capital contributions be recognized as revenues, not contributed capital, unless they are "exchange-like" transactions. The Board considers its CAC and SDC to be "exchange-like" and continued to record them as capital contributions. During 2001, the Board received \$5,075,000 from a lawsuit settlement related to manufacturer defects of certain water

mains, which resulted in water main breaks in 1997 and 1998. The Board considered the receipt of these funds as a nonexchange transaction and recorded them in Nonoperating Revenues (Expenses)—Other Income.

*GASB Statement No. 38:* The Board early-implemented GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” in 2001, which affects the Board’s debt (Notes 4, 5, and 6) and accounts receivable (Note 14) disclosures.

*GASB Statement No. 34:* In June 1999, GASB Statement No. 34 was issued, which establishes a new financial reporting model for state and local governments. The adoption of GASB Statement No. 34 will only affect the Board’s financial statement presentation. Changes to the Board’s financial reporting, effective in 2002, will include: a) addition of a “Management’s Discussion and Analysis” (“MD&A”), b) presentation changes to the equity section of the balance sheet, c) inclusion of proceeds from CAC and SDC on the Statement of Revenues, Expenses and Changes in Retained Earnings, and d) new terminology for certain elements of the financial statements. The change to the “direct” method for preparation of the Statements of Cash Flows was implemented in 2000.

(2) CONTRIBUTIONS IN AID OF CONSTRUCTION AND SYSTEM DEVELOPMENT CHARGES

Changes in CAC and SDC for the years ended December 31, 2001 and 2000 were as follows (amounts expressed in thousands):

	CAC	SDC
Balance, December 31, 1999	\$ 172,837	\$ 273,546
Additions	18,511	25,257
Current year's depreciation expense	(2,606)	(5,561)
Balance, December 31, 2000	188,742	293,242
Additions	18,172	22,420
Current year's depreciation expense	(2,811)	(5,982)
Balance, December 31, 2001	<u>\$ 204,103</u>	<u>\$ 309,680</u>

(3) CASH AND TEMPORARY CASH INVESTMENTS

Colorado statutes and the City Charter authorize the Board to expend funds for the operation of the Board, including the purchase of investments. The Board has an investment policy that allows for the following investments:

- U.S. Government direct obligations and unconditionally guaranteed federal agency securities
- Other federal agency securities
- Repurchase agreements
- Banker's acceptances
- Commercial paper
- Investment Grade Corporate Bonds

- Money market mutual funds

The Board's investments are categorized to give an indication of the level of custodial credit risk assumed by the Board at year-end. Under the criteria of GASB Statement No. 3, "*Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*," ("GASB No. 3"), Category 1 includes investments which are insured or registered or held by the Board or its agent in the Board's name; Category 2 includes investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Board's name; and Category 3 includes investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Board's name.

The Board's restricted and unrestricted investments (current and long-term) at December 31, 2001 and 2000, at fair value, consisted of the following (amounts expressed in thousands):

	<u>Carrying Amount at Fair Value</u>	
	<u>Years Ended December 31,</u>	
	<u>2001</u>	<u>2000</u>
U.S. Government and Agency Securities	\$ 124,232	\$ 123,176
Corporate Obligations	35,201	46,529
Total Category 1	159,433	169,705
Money Market Mutual Funds (Not Categorized)	39,730	7,802
	<u>\$ 199,163</u>	<u>\$ 177,507</u>

The Board's bank balances are also categorized to give an indication of the level of custodial credit risk assumed by the Board at year-end. Under the criteria of GASB No. 3, Category 1 includes bank balances which are insured or collateralized with securities held by the Board or its agent in the Board's name; Category 2 includes bank balances which are collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name; and Category 3 includes bank balances which are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name).

The carrying amount of cash at December 31, 2001, was \$859,000, and the bank balances totaled \$550,000. Of the total of bank balances, \$100,000 was insured by federal depository insurance (Category 1), and the remainder was collateralized with securities held by banks in their trust departments pursuant to the Colorado Public Deposit Protection Act, and as such, are classified as Category 2.

#### (4) CERTIFICATES OF PARTICIPATION

The Certificates (see Note 1) were executed and delivered pursuant to a Mortgage and Indenture of Trust Agreement between a bank, acting as trustee ("Trustee"), and DCLC, pursuant to which DCLC assigned all of its rights, title, and interest under the MLPA to the Trustee. The MLPA is subject to termination on an annual basis by the Board, upon which any outstanding Certificates will be payable solely from funds held by the Trustee and any amounts made available by the Trustee's sublease or sale of the leased assets under the MLPA.

Certificates were first used in 1987 to finance the construction of pretreatment facilities for the Marston Treatment Plant. The Certificates in the amount of \$28,185,000 were executed and delivered at an average

interest rate of 7.82% to be retired over a 20-year period. The pretreatment facilities were completed in 1989.

In 1991, additional Certificates in the amount of \$58,930,000 were executed and delivered at an average interest rate of 6.70% to provide the Board with financing for the construction of improvements to the Moffat Treatment Plant, the construction of the 64th Avenue Pump Station, and to advance refund \$20,735,000 of the 1987 Certificates. The 1991 Certificates were to be retired over a 20-year period.

In 1998, additional Certificates in the amount of \$34,885,000 were executed and delivered at a true interest cost of 4.309% to advance refund \$32,075,000 of the total \$54,025,000 outstanding 1991 Certificates. The net proceeds of \$34,940,000 (after premium, reserve fund payments, and issuance costs) were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Certificates until their call date on November 15, 2001.

In 2001, additional Certificates in the amount of \$40,580,000 were executed and delivered at a true interest cost of 4.3326%. The net proceeds of \$39,412,000 (after receipt of premium less issuance costs and payment to the reserve fund) was used to reimburse the Board for \$21,477,000 of construction costs for improvements to the Marston and Moffat Treatment Plants, and to refund \$17,935,000 of the 1991 Certificates on their call date on November 15, 2001. As of December 31, 2001, all 1991 Certificates have matured or have been called and paid.

The 1998 and 2001 refundings of the 1991 Certificates resulted in a difference between the reacquisition price and the net carrying amount of the old Certificates ("deferred amount on refunding") of \$2,481,000 and \$803,000, respectively. This difference, reported in the accompanying financial statements as a deduction from the Certificates, is being amortized as a component of interest expense through November 2011, which is the shorter of the remaining life of the old Certificates and the life of the new Certificates. At December 31, 2001, the unamortized deferred amount on refunding deducted from the Certificates is \$2,155,000. The Board completed the advance refunding to reduce its total debt service payments over the next 10 years by \$3,239,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,715,000.

The MLPA, as amended and restated, requires a reserve fund be established from proceeds of the Certificates. The reserve fund is to be used in the event the Board fails to make payment of any base rental payments or other payments and fees defined in the MLPA. At December 31, 2001 and 2000, the reserve fund was \$6,917,000 and \$5,692,000, respectively, and is recorded as Restricted Investments. At the end of the lease term, the reserve fund and any related interest will be released to the Board.

A summary of scheduled payments for the Certificates as of December 31, 2001, is as follows (amounts expressed in thousands):

<u>Year of Maturity:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current:	\$ 4,260	\$ 3,088	\$ 7,348
Long-term:			
2003	4,430	2,918	7,348
2004	4,605	2,730	7,335
2005	4,800	2,535	7,335
2006	5,005	2,328	7,333
2007-2011	35,160	8,098	43,258
2012-2016	9,625	1,429	11,054
	63,625	20,038	83,663
Plus premium	1,394	-	1,394
Less deferred amount on refunding	(2,155)	-	(2,155)
	62,864	20,038	82,902
	<u>\$ 67,124</u>	<u>\$ 23,126</u>	<u>\$ 90,250</u>

The Certificates are also collateralized by certain assets purchased and/or constructed under the MLPA. Following the 2001 transaction, two locations were subject to the MLPA. These locations are the Marston Pretreatment Facility Site, consisting of three parcels of land, and the Moffat Treatment Plant Site, consisting of four parcels of land. Leased property at the two sites includes all property permanently affixed to the sites as well as those items of movable equipment, machinery and related personal property which are necessary to the performance of the functions performed at the facility at which they are located and which remain located there for 60 days or more. The Board may remodel, substitute, modify, add to or remove leased property at its expense, provided that the value of the leased property shall not be decreased as a result of such changes.

(5) PROPERTY UNDER CAPITAL LEASE

On July 21, 1992, the Board entered into an agreement amending the lease agreement of March 3, 1987 with the Colorado River Water Conservation District ("District") whereby the District was required to construct Ritschard Dam and Wolford Mountain Reservoir ("Wolford") on Muddy Creek, a tributary of the Colorado River north of Kremmling, Colorado. In consideration of quarterly and semiannual lease payments for 27 years beginning after issuance of a notice of award for construction and payments of 40% of the annual operating costs of Wolford beginning after the end of the lease term, the District will convey to the Board at the end of the lease term ownership, use and control of 40% of the storage capacity of Wolford and 40% of the water right. The present value of the minimum lease payments at the beginning of the lease term, including a \$2.4 million nonrefundable deposit, was \$43 million, and the Board recorded an asset and obligation under capital lease of that amount. The project was completed in the fall of 1995.



Minimum capital lease payments were \$3,000,000 during both 2001 and 2000. The following is a schedule by year of future minimum lease payments, together with the present value of the minimum lease payments as of December 31, 2001 (amounts expressed in thousands):

<u>Year Ending December 31:</u>	
2002	\$ 3,000
2003	3,000
2004	3,000
2005	3,000
2006	3,000
2007-2011	15,000
2012-2016	15,000
2017-2021	10,500
Total minimum lease payments	55,500
Less interest at 6.75%	(24,071)
Present value of minimum lease payments (obligation under capital lease)	31,429
Less current portion	(893)
	<u>\$ 30,536</u>

(6) BONDS PAYABLE

Bonds payable consists of general obligation water improvement and refunding bonds of the City. The Board is committed to repay the bonds and related interest from its revenues. Interest rates for the bonds outstanding at December 31, 2001, range from 4.0% to 6.0%. The average interest rate on all outstanding bonds was 5.00% and 5.21% for the years ended December 31, 2001 and 2000, respectively. A summary of debt maturity for the bonds as of December 31, 2001, is as follows (amounts expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Year of Maturity:</u>			
Current:	<u>\$ 11,610</u>	<u>\$ 10,586</u>	<u>\$ 22,196</u>
Long-term:			
2003	11,545	9,856	21,401
2004	13,855	9,299	23,154
2005	23,240	8,635	31,875
2006	20,305	7,462	27,767
2007-2011	97,665	20,759	118,424
2012-2016	18,370	5,409	23,779
2017-2021	-	3,235	3,235
2022-2026	-	3,233	3,233
2027-2031	<u>11,550</u>	<u>1,938</u>	<u>13,488</u>
	196,530	69,826	266,356
Plus premium, net of discount	3,462	-	3,462
Less deferred amount on refunding	<u>(1,276)</u>	<u>-</u>	<u>(1,276)</u>
Total long-term	<u>198,716</u>	<u>69,826</u>	<u>268,542</u>
	<u><u>\$ 210,326</u></u>	<u><u>\$ 80,412</u></u>	<u><u>\$ 290,738</u></u>

In 2001, the Board issued \$86,385,000 of general obligation water refunding bonds in two series, Series 2001A in the amount of \$11,215,000 and Series 2001B in the amount of \$75,170,000. Series 2001A with a true interest cost (TIC) at sale of 4.38% was used to pay principal of bonds which matured on October 1, 2001. Series 2001B with a TIC of 3.84% was used to currently refund \$49,045,000 of Series 1993A bonds with an average coupon rate of 5.19%, and to advance refund \$14,725,000 of Series 1992 bonds with an average coupon rate of 5.89% and \$14,220,000 of Series 1993B bonds with an average coupon rate of 5.08%.

The net proceeds of Series 2001B totaled \$78,633,000 (after receipt of premium less issuance costs), of which \$49,045,000 was used for the current refunding and \$29,588,000 was used to purchase United States Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the Series 1992 and 1993B bonds. Of the Series 1992 and 1993B general obligation bonds, \$1,335,000 and \$1,380,000 respectively, remain outstanding. The refunded portion of the Series 1992 and 1993B bonds are considered to be defeased and the liability for those bonds has been removed from the Board's balance sheet at December 31, 2001.

The current and advance refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt ("deferred amount on refunding") of \$935,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized as a component of interest expense through 2009. At December 31, 2001, the unamortized deferred amount on refunding for all bond refundings deducted from the bonds payable is \$1,276,000.

The Board completed the current and advance refundings to reduce its total debt service payments and to obtain an economic gain (difference between the present values of the old and new debt service payments) as follows:

Series 1992: Reduction in total debt service requirements over the next seven years of \$1,548,000 with an economic gain of \$1,314,000.

Series 1993A: Reduction in total debt service requirements over the next seven years of \$3,562,000 with an economic gain of \$3,089,000.

Series 1993B: Reduction in total debt service requirements over the next eight years of \$716,000 with an economic gain of \$622,000.

In prior years, the Board defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements. At December 31, 2001, \$28,945,000 of bonds outstanding are considered defeased.

#### (7) DEFERRED COMPENSATION PLANS

The Board has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. The plan, available to all regular and discretionary employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in the plan is voluntary, and the Board does not make any contributions. The Board has no liability for losses under the plan but does have the usual fiduciary responsibilities of a plan sponsor.

The Board also sponsors the Denver Water Supplemental Retirement Savings Plan ("SRSP"). The SRSP is a 401(k) plan. All regular and discretionary employees are eligible to participate in the plan. Under the terms of the plan, the Board will make a matching contribution to the SRSP's trust fund each year in an amount equal to 100% of each participant's elective contributions, limited to 3% of the participant's base salary for the year. During 2001 and 2000, the Board made contributions totaling \$1,257,000 and \$1,263,000, respectively, to the SRSP.

#### (8) DEFINED BENEFIT PENSION PLAN

##### Plan Description

The Board sponsors and administers a trustee, single-employer defined benefit pension plan, (the "Plan"). The Plan provides retirement benefits with limited annual cost-of-living adjustments to retired members and, if elected by the member, to his or her surviving spouse. Members of the Plan include substantially all regular and discretionary full-time and part-time employees of the Board. It also provides retirement benefits in the event of total and permanent disability, and a \$5,000 death benefit. Article IV, Chapter C4.19 of the Charter of the City assigns the authority to establish and amend benefit provisions to the Board; however, any amendment that substantially impairs the property rights of employees will not become effective until approved by two-thirds of the employees. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to: Manager of Treasury Operations, MC 210, Denver Water, 1600 West 12th Avenue, Denver, CO 80204-3412.

##### Funding Policy

The Contribution requirements of plan members and the Board are established and may be amended by the Board, which acts as trustee of the Plan. The Plan's funding policy provides for periodic Board contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due. These required contributions may vary and are not expressed in terms of fixed dollar amounts or as percentages of annual covered payroll. Plan members are not required to make contributions, but may elect to make voluntary after-tax contributions to the Plan for the purpose of purchasing an additional monthly benefit. The additional benefit is in the form of an immediate monthly

annuity with no cost-of-living adjustment. The Board intends to continue making annual contributions to the Plan based on current annual actuarial valuations, but reserves the right to suspend, reduce or permanently discontinue all contributions at any time, pursuant to the termination provisions of the Plan.

#### Annual Pension Cost

The Board's annual pension cost for 2001 was \$3,529,000, equal to the Board's required and actual contributions. The required contribution was determined as part of the January 1, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 5% to 12.2% per year, and (c) 5% per year cost-of-living adjustments for members terminating or retiring before September 1, 1995, and 4.4% per year for members terminating or retiring on or after September 1, 1995. Salary increases include an inflation component of 5.0%. The actuarial value of Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The Plan's unfunded actuarial accrued liability is being amortized in level dollar amounts on a closed basis. The remaining amortization period at January 1, 2001 was 34 years.

#### Trend Information

Three-year trend information for the Board's pension cost and contributions is as follows (amounts expressed in thousands):

<u>Year</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
1999	\$4,435	100%	-
2000	\$3,464	100%	-
2001	\$3,529	100%	-

A Schedule of Funding Progress for the Plan is as follows (amounts expressed in thousands):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) --Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
1/1/99	\$165,762	\$170,984	\$5,222	96.9%	\$44,148	11.8%
1/1/00	\$184,124	\$178,160	(\$5,964)	103.3%	\$45,204	(13.2)%
1/1/01	\$195,559	\$188,903	(\$6,656)	103.5%	\$46,564	(14.3)%

#### (9) POSTRETIREMENT BENEFITS

As part of the retirement program revisions instituted in 1995, the Board, under authority of the City Charter, established a postretirement health care benefit in the form of a \$125 fixed monthly subsidy for medical, dental, or vision insurance coverage obtained through the Board's health plan to all employees taking early retirement. The subsidy begins with the first pension payment and continues until the retiree reaches age 65, or until pension payments cease, whichever is earlier. The subsidy is not written in the retirement plan or paid out of retirement plan funds and can only be used each month to offset part or all of that month's cost of insurance coverage. Currently, 83 retirees are eligible to receive this benefit. Expenses of this program are recognized as incurred, which amounted to \$124,000 and \$120,000 during 2001 and 2000, respectively.

(10) RISK MANAGEMENT

The Board is exposed to various risks of losses including general liability (limited under the Colorado Governmental Immunity Act to \$150,000 per person and \$600,000 per occurrence), property damage, and employee life, medical, dental, and accident benefits. The Board has a risk management program that includes self-insurance for liability, and self-insurance for employee medical and dental benefits through a commercial claims servicer. The Board carries commercial property insurance for catastrophic losses, including floods and earthquakes, for five major facilities: the Westside Complex, Marston Treatment Plant and Lab, Moffat Treatment Plant, Foothills Water Treatment Plant, and the Reuse Plant. It carries limited insurance for other miscellaneous locations. The Board also carries commercial insurance for employee life, accident, and workers' compensation. Workers' compensation insurance is under a retrospectively rated policy whereby the initial premiums are adjusted based on actual experience during the period of coverage. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Premiums on the retrospectively rated policy are accrued based on the ultimate cost of the experience to date. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2001, claims liabilities consisting of medical and dental benefits were \$1,542,000. Changes in the balances of these liabilities during 2001 and 2000 were as follows (amounts expressed in thousands):

	<u>Beginning- of-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Year-End</u>
2001	\$1,738	\$8,574	(\$8,770)	\$1,542
2000	\$2,128	\$6,915	(\$7,305)	\$1,738

The Board has designated \$7.5 million of its investments as available for claims covered by self-insurance.

(11) PREPAID SYSTEM DEVELOPMENT CHARGES

South Adams County Water and Sanitation District ("SACWSD")

On December 19, 1997, the Board and SACWSD entered into a Memorandum of Understanding, and on November 30, 1998, entered into a final agreement, whereby the Board will supply up to 2,000 acre-feet of treated water annually through December 31, 2003, and up to 4,000 acre-feet annually thereafter, for which SACWSD paid prepaid system development charges of \$22,920,000 in December 1997. Increasing the amount from 2,000 to 4,000 acre-feet per year is contingent upon SACWSD's acquiring, developing, and conveying to the Board storage facilities for 8,000 acre-feet of water along the South Platte River downstream of Denver, and improvements to the Board's 56<sup>th</sup> Avenue facilities. The Board initially recorded all payments in Customer Advances for Construction. As of December 31, 2001, conveyances of \$9.2 million were transferred from Customer Advances for Construction to Contributions in Aid of Construction for the storage facilities and improvements. When the project is completed and the Board begins supplying water at the 4,000 acre-feet per year level, the initial payment of \$22,920,000 will be transferred to System Development Charges.

Xcel Energy ("Xcel")

In January 1998, the Board and Xcel entered into an agreement whereby the Board will supply up to 5,200 acre-feet of nonpotable reuse water annually from the Board's nonpotable reuse plant, which is under

construction, to Xcel's Cherokee generating plant beginning January 2006, for which Xcel paid prepaid system development charges of \$12,519,000 in January 1998. The Board will ensure interim water supply to the Cherokee plant through the Farmers and Gardeners Ditch. The Board recorded the payment in Customer Advances for Construction. When the Board begins supplying water from the reuse plant, the payment will be transferred from Customer Advances for Construction to System Development Charges.

## (12) LITIGATION

In August 1995, the Board received the results of an environmental self-audit, which revealed that a pipe to which several shop drains were connected was a storm drain rather than a sanitary sewer drain. This situation probably resulted in discharges of pollutants to the South Platte River. Despite the conclusion of the Colorado Department of Public Health and Environment that the Board should not be penalized, the U.S. Environmental Protection Agency ("EPA") and the U.S. Department of Justice ("DOJ") decided in 1999 to file an enforcement action under the Clean Water Act and the Resource Conservation and Recovery Act ("RCRA"). The Board negotiated a settlement with the DOJ and EPA whereby the Board paid a penalty of \$48,000 and agreed to perform the following "supplemental environmental projects" that benefit the environment: 1) execution of a contract for \$58,000 to purchase trees and shrubs for the Overland section of the South Platte restoration project, and 2) construction of a building containing a paint shop, a vehicle wash and a waste management facility ("Building Number 3"), which will result in a significant reduction in the amount of hazardous waste and wastewater. Construction of Building Number 3 was completed before the deadline of October 11, 2001. The only remaining activity under the consent decree is to file a completion report once the facilities have been in operation for sufficient time to determine that the expected environmental benefits will be accomplished.

## (13) WASTE DISPOSAL CLOSURE AND POSTCLOSURE CARE COSTS

The Board operates a landfill at the Foothills Water Treatment Plant for disposal of aluminum sulfate solids/residuals generated as a by-product of the potable water treatment process at the Foothills and Marston Water Treatment Plants. It also operates sludge drying ponds at Ralston Reservoir for treatment of water treatment residuals generated as a by-product of the potable water treatment process at the Moffat Water Treatment Plant. Both sites have been in operation since 1995. State and federal laws and regulations require the Board to perform certain closing functions on these disposal sites when they stop accepting waste, including placing a final cover on the Foothills landfill, and to perform certain maintenance and monitoring functions at the sites for thirty years after closure.

Although these sites are not municipal solid waste landfills, and are outside the scope of GASB Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*," ("GASB No. 18"), the Board voluntarily implemented the provisions of that statement in 2000 to meet state and federal financial assurance requirements discussed below. Prior years were not restated due to the immateriality of the amounts involved.

As required by GASB No. 18, although closure and postclosure care costs will be paid only near or after the date that the disposal sites stop accepting waste, the Board reports a portion of the Foothills closure and postclosure care costs as an operating expense and liability in each year based on landfill capacity used as of each balance sheet date. The Board reports the entire liability for closure and postclosure care costs for the Ralston sludge drying ponds since they are not "filled" like a landfill, but are reusable.

Approximately \$2.1 million is reported as Waste Disposal Closure and Postclosure Care liability at December 31, 2001 (\$.5 million for Foothills and \$1.6 million for Ralston), which represents the cumulative amount based on the use of 46% of the active portion of the Foothills landfill and 100% of the Ralston drying beds. The Board will recognize the remaining estimated cost of the Foothills postclosure care of \$396,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2001. Actual cost may be higher due to inflation, changes in

technology, or changes in regulations. The remaining life of the Foothills landfill is estimated to be five to six years for the active disposal area of 21.5 acres. In addition, there is expansion capability of 100 acres with an indefinite life. The Ralston drying beds have an indefinite life.

The Board is required by state and federal laws and regulations to establish financial assurance sufficient to ensure full payment of closure and postclosure care of its disposal sites by selecting one of a variety of financial mechanisms. The Board chose the "Local Government Financial Test" which includes profitability requirements, minimum general obligation bond ratings, unqualified audit opinions, and the implementation of GASB No. 18.

(14) COMPONENTS OF ACCOUNTS RECEIVABLE

Accounts Receivable at December 31, 2001, are approximately 75% for treated water sales and 25% for other receivables including contributions in aid of construction, system development charges, nonpotable and hydrant water sales, and power sales. Receivables from City and County of Denver agencies are approximately 2% of water receivables and 11% of other receivables.

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SUPPLEMENTAL FINANCIAL INFORMATION